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15 October 2025

IoD Autumn Budget Submission 2025

About the IoD

The IoD is an independent, non-party political organisation representing 20,000 company directors, senior business leaders, and entrepreneurs. It is the UK's longest-running organisation for professional leaders, having been founded in 1903 and incorporated by Royal Charter in 1906. Its aim is to promote good governance and ensure high levels of skills and integrity among directors of organisations. It campaigns on issues of importance to its members and to the wider business community with the aim of fostering a climate favourable to entrepreneurial activity in the UK.

The economic context

Since last year's Budget, the UK's economic performance has been mixed. The UK once again had the strongest growth in the G7 in the first half of 2025 – as it did in 2024. Despite a significant rise in the tax burden on business, growth in 2024 came in as expected in July 2024, and 2025 growth is set to exceed forecasts made at the same time[i], despite the crystallisation of global risks from tariffs. And yet, despite this resilience, business confidence hit a new record low in September, according to the IoD's decision-maker confidence index.[ii]

The 2024 Budget brought welcome certainty to the public sector, confirming departmental current and capital budgets. Over the year, this has been supplemented by the Infrastructure Strategy in particular, which has added further welcome clarity to the government's plans for enhancing the UK's infrastructure. Particularly welcome has been the priority placed on regional projects outside London and the South East. These are fundamental to driving stronger growth in activity in other parts of the UK, helping to address the UK's significant regional disparities in standards of living. And greater stability in departmental current budgets – particularly for the NHS – along with commitments to efficiency enhancements, should help support the provision of vital public services.

We are grateful to the government for listening to our requests to deliver a more-growth focussed narrative on the economy. Along with other strategic wins for business, such as the three trade deals and the Industrial Strategy, this has been met favourably by business leaders. The refreshment of growth teams at both the Treasury and No10, brought together by a jointly-chaired "Budget Board", is an important signal of the seriousness with which the growth mission is being taken.

However, growth signals are only part of what is needed to deliver a credible growth strategy for the UK. They can support confidence, but only where they are credible. The reality is that in prioritising public sector budgets at the expense of businesses, sticking with manifesto commitments to not touch personal taxation and VAT, maintaining too slim a margin against the fiscal rules, and difficulties addressing the unsustainable trajectory for benefit spending, all the public finance risk has been left sitting on the business and investment sectors of the economy. It is arguably also contributing to the rise in longer term gilt yields in the UK, which has been greater than our G7 counterparts.

The manifesto commitments are proving increasingly in conflict with the government's growth agenda, as they push policy towards other tax measures which are more damaging for growth, and therefore for living standards. Speculation over the future direction of taxation in areas such as housing and pensions, including potential wealth taxes, risks capital flight from the UK and is highly damaging to the very environment for investment that we are seeking to improve in the UK. The government is right to prioritise the living standards of working people. But this is best served through going for growth, rather than preserving today at the expense of tomorrow.

Our recommendations for a growth-focussed Budget cover the following themes:

- A strategic Budget for growth
- Addressing a new fiscal rules miss
- Public spending management
- Tax strategy
- Removing regulatory blockers to growth
- Skills
- Employment
- Energy and net zero
- Trade
- Devolved nations
- Innovation and technology

A strategic Budget for growth

UK business confidence reached a new record low in September, cost pressures rose to a new high, driven by employment costs (both wages and taxes) and investment intentions remained subdued. Particular issues that members cite include tax and regulatory burdens, policy volatility and depressed demand. Concerns are particularly high that this Budget will heap further pressures on business, with members talking of being in survival mode with planning paralysis. It is clear that many businesses feel on the edge.

In September, we asked IoD members what their priorities were for this Budget. This is how they answered:

Table 1:
Which of the following, if any, would you most want to see government do to address business challenges?

Set out a coherent and credible growth strategy	79%
Publish a roadmap to reducing the tax burden on business	63%
Reduce the burden of employment regulation	59%
Simplify the business tax system	49%
Reduce the administrative burden of regulation	41%
Commit to a plan for lowering business energy costs	34%
Improve UK road infrastructure	25%
Improve the availability of finance for SMEs	22%
Improve UK rail infrastructure	19%
Improve support for digital adoption for SMEs	12%
Improve the availability and cost of childcare	10%
Reform the apprenticeship levy	10%
Digitalise customs and trade processes	9%
Expand the UK's aviation capacity	7%
Provide better financial support for exporters	6%
Other	21%

Source: IoD Policy Voice September 2025

Amongst those who provided alternative options, a wide range of ideas were proposed, including a more coherent strategy for the net zero transition, closer trade ties with the EU and innovation and digital priorities – we will delve into these areas in more detail later in our submission. But it is very clear what business leaders are looking for from this Budget.

Addressing a new fiscal rules miss

The UK's public finances are precarious and to a greater degree than many of our competitors. The IMF's April 2025 Fiscal Monitor show that the UK's borrowing is the fifth highest among 36 advanced economics and net debt is the sixth highest.[iii] And as of the 3rd October, UK gilt yields (both 10 and 30 year) were the highest in the G7.[iv] Although the UK's debt is not as high as France, and UK borrowing is lower than in the States, France benefits from the EU backstop, while the US remains a global reserve currency. The UK benefits from neither support. Meanwhile, the OBR is expected to report a fiscal rules miss in the tens of billions as it updates its growth forecasts and productivity assessments.

In addition to the above, other factors have contributed to a renewed deterioration in the UK's public finance outlook. Past data revisions have created a less favourable starting point, sticky inflation in the UK is leading to higher expectations for interest rates and global factors have driven up government borrowing costs. But a further driver of UK government borrowing costs is likely to be the overall coherence and credibility of the UK's fiscal strategy. Manifesto commitments to working people today that, as well as posing risks to their living standards in the longer term, concentrate fiscal risk in growth-generating sections of the economy (namely businesses and investors), are driving down broader risk appetite in those sectors, and risking future growth. The cancellation of benefit reform exacerbates fiscal risk concentration on business and investment sectors. And the historically slim margin by which the fiscal rules are being met amplifies risk still further.

There are a number of options for plugging the fiscal gap in the short-term across spending, taxation and borrowing. But the harder question is what combination of policies will best deliver fiscal credibility and stability over the longer term.
There are areas of the fiscal framework that can be improved, areas of unsustainable public spending that can and should be addressed, and areas of the tax system to lean on that are the least detrimental to growth. Our recommendations centre on the strategic policy choices that are best suited to maximise the UK's growth to the benefit of all.

The fundamentals needed for fiscal stability

Given where UK borrowing costs are now, particularly by international comparison, additional borrowing would be high risk. With trend growth weak, the UK will already head towards unfavourable debt dynamics as inflation returns to target, raising the risk that we will need to run primary surpluses just to stabilise debt.[v]
The IMF in 2021 stated that credible rules and institutions are the fundamental underpins to sound public finance management. They have largely welcomed the reforms to the UK's **fiscal framework** over the past year: in particular they note that aligning the fiscal rules with the budget horizons for departments should support credibility, while enabling borrowing to support investment recognises the payoff horizons for that investment.

However, the UK's fiscal rules have been changed more frequently than any other country over the last 15 years. The current **fiscal rules** are the loosest since 1997, and set to loosen a little further in 2026. But they still remain a vital component of well-designed strategies for fiscal stability. They are intended to indicate a recognition by government that decisions are subject to constraints. But their formation and application is the choice of the government, not of the OBR, and suggestions that the OBR is running UK fiscal policy are false.

Also crucial for fiscal credibility is that the **forecasts** underpinning the fiscal outlook should sit outside the Treasury. This reduces the risk that the Treasury will "game" both the forecasts and the rules. However, it has been surprising that the OBR's forecasts for growth have been so far away from the average independent forecast for such a prolonged period. The OBR's own analysis of its forecast performance finds that since 2010, it has tended to be optimistic in the medium-term, although not significantly more so that other UK forecasters.[vi]

There has been significant debate over how best to enact the government's commitment to **one fiscal event a year**, so it achieves the best balance between transparency and stability. The IMF's Article IV consultation on the UK[vii] provided a number of options for consideration. Their first one is that higher fiscal buffers should be maintained against the rules, to ensure small changes in the outlook do not necessitate a policy response. This continues to be our recommendation. We note that the fiscal rules are due to shift in 2026, as follows:

- The "current budget" rule becomes "the current budget must [then] remain in balance or in surplus from the third year of the rolling forecast period, where balance is defined as a range: in surplus, or in deficit of no more than 0.5% of GDP. […] If the range is used between fiscal events, the current budget must return to surplus from the third year at the following fiscal event.”[viii]

- Instead of targeting a fixed year – currently 2029-30 – the target will be measured at a rolling three-year horizon.

We have several reflections on this. Firstly, the wording above is a little unclear. Because budget balance is defined as + or -0.5% of GDP, there is technically nothing to prevent the Chancellor immediately targeting -0.5% of GDP, thus meeting the set definition for balance, but also increasing borrowing. The second part of that rule is quite tough however. In stating that use of the range requires a surplus to be in place at the next fiscal event, it means that even where a surplus of up to 0.5% of GDP has been achieved, a surplus of greater than 0.5% of GDP must be achieved at the target year in the next fiscal event. But there is no statement made regarding what the response would be where the current budget is below -0.5% of GDP. Also, as ever, the challenge with a rolling three year horizon is that the target date never arrives, enabling fiscal rectitude to forever sit in the future.

Recommendations

1. **Clarify the date at which the new fiscal rules come into effect.**
2. **The language of the rules needs tightening to ensure that it actually delivers its intent to reduce the need for fiscal tinkering and achieves meaningful fiscal credibility. The target for current budget balance should be specified as zero. An acceptable range for the current budget can then be set as a fiscal buffer, movements within which will not require a fiscal response. As it has already been announced, the range -0.5 to +0.5% should be utilised as on balance, it could be counterproductive to change the rules yet again at this late stage. However, we note the OBR’s remark that “The average absolute final-year revision to pre-measures borrowing over the past ten forecasts has been £19.4 billion”,[ix] which equates to 0.7% of GDP.**
3. **The rolling targets remain a source of fiscal risk. In combination with the potential for the 2026 iteration of the fiscal rules to be interpreted as another loosening in fiscal policy, the risk is that markets apply an even higher risk premium to UK debt. Consideration should be given to setting a level target for PSNFL, to act as a credible anchor for fiscal policy and to support lower government borrowing costs.**

The IMF further recommend some changes to the presentation of headroom estimates in the OBR's analysis. While the provision of further information to enable a better understanding of fiscal risk seems sensible, it should not be used to obfuscate the presentation of the government's headroom against target. Meanwhile it does not make sense to assess the fiscal rules only once per year, while producing two forecasts from which fiscal rule compliance could be deduced. Both recommendations seem tilted towards reducing **transparency** at a time when markets are highly sensitive to UK-focussed news. This risk could crystallise as yet higher borrowing costs for the government. The solution would seem to be baked into the new iteration of the UK's fiscal rules, provided they are clarified in line with our recommendations. This would enable the UK to maintain the same level of transparency with respect to public finance performance as key international counterparts while reducing the need for short-term response.

Recommendation

4. **The UK should not change the frequency with which the OBR is mandated to provide forecast updates and fiscal rule compliance assessments. This would represent an unwelcome and risky reduction in the transparency surrounding the UK's public finances at a time when they are under significant scrutiny. Instead, the focus should be on better specifying the next iteration of the fiscal rules, including the clear communication of how the government will respond to indications of fiscal rule misses by the OBR outside of annual fiscal events.**

Public spending management

It was right to deliver budget certainty to departments in the last Budget. This was necessary to support the provision of vital public services which themselves support the health and effectiveness of the UK population. Capital investment makes sense to prioritise too, as it can crowd-in broader private sector investment, as well as contribute directly to better productivity. Meanwhile departments have also been set efficiency targets whose delivery are crucial for the UK's growth outlook. When we asked IoD members earlier in the year, public sector efficiency was a clear priority:

Table 2:
January 2025: What do you think should be the top priority for the public sector Spending Review?

Increase public sector productivity	38%
A greater focus on long-termism	20%
Alignment of government spending with the government's stated priorities/missions	11%
Other	9%
Investment in technology	8%
Investment in health	5%
Planning reform	4%
Net zero transition	3%
Devolution of spending	1%
Total	100%

Source: Institute of Directors, Policy Voice, January 2025

However businesses and investors also need certainty in order to drive the UK's economic growth forward. Because borrowing was increased to such a significant degree in last year's Budget, because of manifesto commitments that severely limit the choices for tax increases, because key areas of public spending outside departmental budgets are on unsustainable trajectories, and because the margin against the fiscal rules is historically slim, the whole of the UK's public finance risk sits on the business and investment sectors – those sectors which are most fundamental to the UK's growth. These issues are driving down confidence to record lows according to our own data, undermining investment spend in the UK which is already at an advanced economy low. These risks needs to be spread more evenly across the economy. Attempts to ameliorate risk through the government's growth narrative and through long-term strategy are part of the solution to addressing risk and uncertainty for business and investors. But as long as they shoulder all the UK's public finance risk, they will not prove sufficient.

There are unsustainable areas of public spending which need to be addressed as part of the work needed to ensure a more equitable sharing of public finance risk across the economy. Departmental budgets – known as DEL and set at Spending Reviews – are less than 50% of Total Managed Expenditure.[x] The remainder – AME – is made up of spending areas including social security and welfare, and debt interest payments.

The trajectory for pensions spending has been found to be unsustainable by the OBR and the government has launched the Pensions Commission to look at the long-term future of the pensions system, including outcomes for future cohorts, improving retirement outcomes, and the role of private pension provision. But the affordability of public pension provision needs also to be assessed and wrapped into the remit of the Pensions Commission.

The government's Welfare Reform Green Paper[xi] draws attention to trends in the incidence and nature of ill health vs trends in the number of incapacity and disability, noting that claims have risen at roughly double the pace of increase in disabled workers. It further notes that the trend in incapacity and benefit spend is not financially stable. Work by the IFS[xii] has looked at flows onto and off benefits, to understand what's driving the overall rise in caseload, suggesting that changes in the application process may have impacted claims. Meanwhile outflows from disability benefit have also declined. Citizens Advice look at how the structure of the benefits system interacts with incentives to work.[xiii]

We will not seek to propose the exact mechanisms by which benefit and public pensions spend should be rendered more sustainable. But doing so is a necessary component of a strategic growth plan for the UK, which has sustainable public finances at its heart, and is laser focussed on maximising growth.

Recommendations

5. **We recommend that benefit and pension reform play an enhanced role in the UK's fiscal strategy. A 10 year strategy for benefit reform would sit logically alongside the government's other strategies. This should incorporate success metrics which include bringing down the trajectory for benefit spend. A strategy for pensions affordability needs to dock into the work of the Pensions Commission into the overall pensions landscape.**

Tax strategy: balancing short-term tensions and long-term priorities

Uncertainty, instability and burden in the tax system for business is damaging incentives to hire and invest and having a negative impact on organisations. In our August Policy Voice survey, employment taxes and business taxes were the second and third most cited factors having a negative impact on organisations respectively. Feedback from IoD members indicates that this is both because of tax increases implemented at the last Budget, and also because of fears for this Budget.

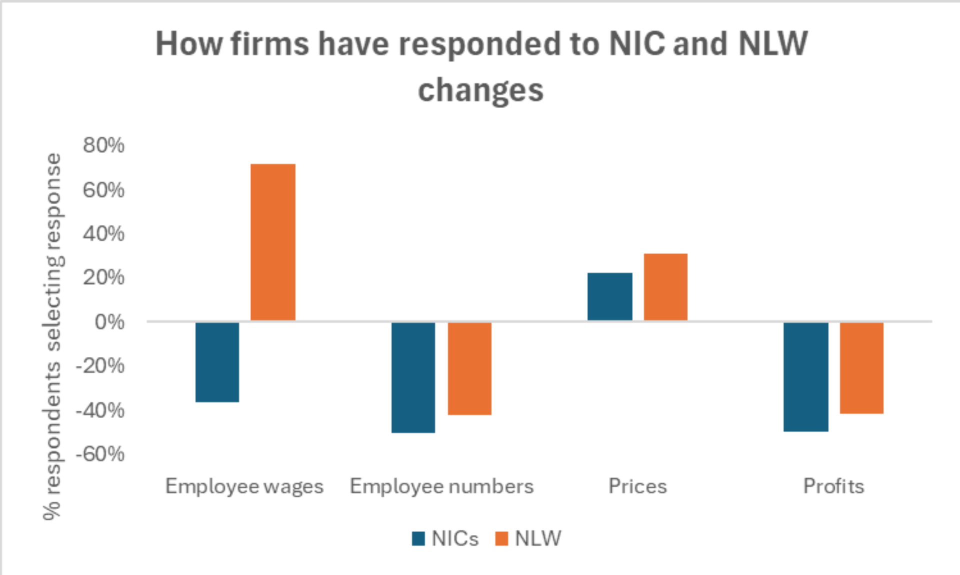
Table 3:
Which of the following, if any, are having a negative impact on your organisation?

UK economic conditions	75.7%
Employment taxes	59.4%
Business taxes	46.9%
Compliance with government regulation	32.0%
Global economic conditions	31.8%
Skills shortages and/or labour shortages	30.8%
Cost of energy	29.6%
Cost/availability of finance	17.1%
Difficulty or delays obtaining payment from customers	17.1%
Trading relationship with the EU	16.6%
Transport cost/speed/reliability	12.3%
Supply chain disruption	8.9%
Broadband cost/speed/reliability	8.8%
None	1.2%

Source: IoD Policy Voice August 2025

The response of IoD members to the changes in NICs and the NLW which came into effect in April 2025 has been in line with the OBR's predictions. Overall, the costs are being absorbed via lower profits, lower numbers of employees and higher prices – wage effects are more mixed:

Figure 1



Source: IoD Policy Voice September 2025
Note: Responses for NIC impacts relate to those firms for whom bills increased (81% of overall survey response). Responses for NLW impacts relate to those companies who hire those on the NLW (26% of overall survey response). The NLW impact on wages reflects the impact on both those on the NLW and other employees.

IoD members favour a tax roadmap which targets a lower tax burden and a simpler business tax system (table 1 above). While the corporate tax roadmap has some welcome elements, its exclusion of significant portions of the tax landscape affecting business significantly compromises its effectiveness as a tool for supporting business planning, while many other areas lack detail.

There has been significant consideration given by analysts to how better to design the tax system to support growth while also delivering revenue. Delivering both higher revenue and better growth in the short-term has been found to be particularly challenging as many of the tax options left when you exclude income tax, VAT and employee NI entail further damage to investment incentives. The reality is that preserving the incomes of working people today risks damaging them tomorrow. The choice must be made to maximise tomorrow's living standards. Therefore, where there is a need to raise significant amounts of tax revenue to deliver public finance stability, the priority must be to raise tax in those areas which are least damaging to growth. Simulations by NIESR indicate that of the main taxes, income tax is the one which is least damaging to growth.[xiv] Raising corporation tax would damage the supply side of the economy by hitting investment while VAT hits both demand and supply and risks entrenching higher inflation as well as hitting investment. Higher income tax reduces consumption, but its considerably wider base means much smaller changes can be made to raise similar amounts of revenue to much larger changes in either corporation tax or VAT.

Recommendations

6. **Income tax should be part of the tax mix where significant revenue needs to be raised in the short-term.**
7. **The corporate tax roadmap should be improved:**

a) **In keeping with the government's other strategies, it would make sense to treat the corporate tax roadmap as a live document which can be fleshed out over time.**
b) **As consultations are undertaken and implemented, it would be useful to have their conclusions and the associated actions melded into the overall roadmap to aid interpretation of how they contribute to the overall direction of travel for the tax system.**
c) **The actions in the HMRC transformation roadmap into the overall business tax roadmap. This would cement HMRC's ambition to become more customer-focussed.**
d) **The inclusion of language which frames the fiscal risk exposure of the business community via the tax system would be helpful in supporting the analysis by business of their overall risk exposure, enabling more effective decision-making. Impact assessments for business**

Recent work by the IFS makes a number of important points about incentives in the tax system and the need for systemic reform.[xv] If we are focussed on growth, then by definition the incentives that individuals and businesses face as they grow through the tax system matter. These incentives include:

a) to save and invest
b) to hire
c) to choose work over leisure

There are multiple imperfections in the system which compromise individual incentives to work. The marginal rate of corporation tax in the company size bracket £50-250k is 26.5%, above that for both smaller companies (19%) and larger companies (26.5%). Another significant one is the high effective marginal rates of tax experienced by those in the £100-125k wage bracket, particularly those with children. Anecdotal evidence[xvi] that this distorts choices over hours worked, pension savings and even effort is growing. As we prioritise growth, it makes sense to look at how taxes and reliefs interact to influence incentives to undertake those activities most beneficial to the economy. Similarly, raising capital taxes or introducing new ones – such as wealth taxes (either regular or one-off) – reduce the returns to investment and will act as a disincentive to it, bearing down on future growth.

Recommendation

8. **As part of the UK's tax strategy, efforts should be made to smooth out particularly significant distortions in the tax system that compromise economic choices by individuals and companies, to the detriment of economic growth.**
9. **Any changes to the taxation of assets held in the UK must be considered carefully. HMRC ready reckoners illustrate the risk that increases in taxes in these areas lead to lower revenues due to behavioural responses.**

Different policy choices will have different impacts on different parts of the business community. For example, large retailers who employ significant numbers on the minimum wage and have large premises will experience greater impacts from changes in the minimum wage and business rates than the average UK business.

Recommendation

10. **The government should publish impact analysis for different parts of the business community for fiscal events – including SMEs – to enable better transparency over impacts.**

Removing regulatory blockers to growth

The priority being placed on reducing regulatory barriers to growth is welcome. We have particularly welcomed the adoption of a target to reduce by 25% the regulatory burden on business and look forward to further progress in setting the baseline against which this target is to be assessed. Regulation consistently scores as one of the top factors having a negative impact on organisations according to our member surveys:

Table: 4
Which of the following, if any, are having a negative impact on your organisation?

UK economic conditions	75.7%
Employment taxes	59.4%
Business taxes	46.9%
Compliance with government regulation	**32.0%**
Global economic conditions	31.8%
Skills shortages and/or labour shortages	30.8%
Cost of energy	29.6%
Cost/availability of finance	17.1%
Difficulty or delays obtaining payment from customers	17.1%
Trading relationship with the EU	16.6%
Transport cost/speed/reliability	12.3%
Supply chain disruption	8.9%
Broadband cost/speed/reliability	8.8%
None	1.2%

Source: IoD Policy Voice August 2025

We additionally asked members what the top regulatory blockers to growth were:

Employment and workplace regulation (e.g. working time, health and safety)	**45.4%**
N/A: our organisation's growth is not impacted by administrative barriers	24.7%
Trade and customs requirements	16.9%
Financial regulation (e.g. FCA, PRA, AML)	13.7%
Environmental and sustainability	13.7%
Consumer protection and data protection (e.g. GDPR)	12.6%
Competition	11.9%

Planning and building	11.9%
Other	10.8%
Sector-specific licencing (e.g. food safety, operator licences)	10.8%

Source: Institute of Directors Policy Voice Survey August 2025

Employment and workplace regulation came top of the list regardless of firm size, followed by trade and customs requirements. We will pick up on these in later sections.

Although planning and building regulations fall relatively low down the regulatory burdens listed by companies, they are widely recognised by economists as being part of the impediment to infrastructure delivery in the UK – itself a key priority for business and fundamental to the UK's future growth prospects. The Chancellor's decision to back the expansion of Heathrow airport acts as a bold and welcome signal of ambition in this area. Ambitious housing targets are also a positive signal of intent. Meanwhile we welcome progress made to date via the Planning Bill which is making its way through parliament, with the government's proposed amendments intended to further accelerate progress. There is clearly a great deal of work needed to improve the functioning of the Building Safety Regulator so that it instils the right standards in an efficient and effective manner. Moving the regulator into DCLG may help improve alignment between the strategic direction of the regulator and broader housebuilding ambitions. And the appointment of an Interim Chief Construction Advisor makes sense as the government moves toward a single construction regulator. A single regulator should help accelerate progress towards "systems thinking" in construction regulation.

Skills

While labour shortages are less acute than at their peak after the pandemic, largely due to policy decisions including the increase in employer's National Insurance contributions, the Employment Rights Bill, and above-inflation increases to the National Living Wage, skills shortages remain an issue for employers. IoD research in August 2025 found that 31% of business leaders cited skills and/or labour shortages as having a negative effect on their organisation.[xvii]

The government's commitment to reforming the Apprenticeship Levy is welcome. The Levy has failed to meet its most basic policy aims; apprenticeship starts have declined since its introduction, with a particularly steep decline in SMEs. At the same time, the lack of flexibility in the Levy is frustrating for Levy payers; apprenticeships are essential to tackling skills gaps but are not the right training answer for every skills need.

Recommendations:

11. Allocate the entirety of the funds raised by the Apprenticeship Levy and Immigration Skills Charge to apprenticeships and other forms of training approved by Skills England as addressing skills shortages. The lack of transparency around how both of these taxes on employers – ostensibly levied in the name of increasing investment in domestic skills – are spent is undermining employer confidence and buy-in to the skills system. This policy should be fully implemented before other approaches to balancing the Levy budget – such as reducing the payroll threshold, increasing the rate at which the Levy is paid, or further limiting the qualifications fundable via the Levy – are considered.
12. Increase the funding bands for apprenticeships in line with inflation. The failure of funding bands to keep pace with inflation leads to either providers having to reduce the quality of the training provided or charge employers top up fees to cover the actual costs of provision.

Employment

The increase in employer's National Insurance contributions, and above-inflation increases to the National Living Wage have combined to make employing staff a fundamentally costlier proposition for employers. The result has been a decline in employer demand for labour, with the ONS estimating that there were 100 thousand fewer payrolled employees in September 2025 compared to a year earlier.[xviii] Findings from our own survey data (see figure 1) reinforce findings from the Bank of England's decision-maker panel[xix] that the employer response to these changes has been to lower the level of employment.

There has been some debate regarding the scope for enhanced employment rights to improve UK productivity, particularly referencing analysis using the Labour Regulation Index.[xx] However, more recent research using this index suggests that while the possibility of probability improvement holds, "productivity is inversely related to employment in some systems, mostly liberal market and common law countries".[xxi] It specifically finds for the UK an inverse relationship between productivity improvements and employment, reinforcing fears that higher employment rights in the UK will be associated with higher unemployment. This combines with findings from our own research with IoD members in 2024, which found evidence that a majority of business leaders would be less likely to hire were the Employment Rights Bill to be implemented as planned.[xxii] We remain concerned that the scope and nature of the Employment Rights Bill as currently formed will have a deleterious effect on UK employment.

If the government is to meet its stated aim of achieving an 80% employment rate by the end of the Parliament, it must fundamentally rethink its approach to employment policy.

Recommendations

13. **Make sensible changes to the Employment Rights Bill: introduce additional protections against unfair dismissal at nine months of employment rather than day one; maintain existing thresholds for trade union recognition and industrial action; increase the planned reference period for the entitlement to guaranteed hours to 52 weeks, and make it a right for employees to request, rather than to be proactively offered, a contract reflecting hours regularly worked; and retain one waiting day before employees can access Statutory Sick Pay.**

14. Reintroduce the Statutory Sick Pay rebate for SMEs.
15. Avoid increasing the National Living Wage beyond two-thirds of median income, in order to protect entry-level jobs, particularly in low-margin sectors with high fixed labour costs like hospitality.
16. Increase investment in the tribunal system and Acas to minimise the significant risk that the changes resulting from the ERB will overwhelm both systems. Acas' recent proposal to extend the time limit for early conciliation from 6 weeks to 12 weeks, on account of a recent surge in demand and increasingly complex cases, should serve as a clear warning sign that existing systems will be unable to cope with the additional pressure.
17. Reverse the 2021 IR35 rule changes to enable contractors to self-classify their employment status. Current off-payroll rules are providing a strong deterrent to the engagement of contractors – as hiring companies are liable for any misclassifications that might occur. IoD research from August 2024 found that the 2021 change has increased bureaucracy for a third (34%) of businesses and led to a fifth (21%) of employers reducing their use of contractors.[xxiii]

Since 2021, responsibility for determining the IR35 status of contractors has rested with end clients (other than small businesses and those based wholly overseas). What effect, if any, has this had on your organisation? Please select all that apply.

Increased bureaucracy due to compliance checks	33.7%
No impact	28.3%
N/A	22.1%
Increased difficulty in recruiting contractors	21.3%
Reduced our use of contractors	20.7%
Increased contractors' pay to compensate for higher taxes	13.4%
Other	3.3%

Source: Institute of Directors Policy Voice August 2024

Energy and net zero

UK electricity prices remain well above the IEA average and discourage investment in the UK.[xxiv] The recent announcement[xxv] of the British Industrial Competitiveness Scheme is a welcome recognition of the problem, but the scheme does not tackle the structural causes of high energy costs and will not help the vast majority of UK businesses struggling with energy costs.

Recommendations

18. Decouple UK electricity prices from volatile gas markets and prioritise the development of alternative energy sources capable of providing baseload power, particularly nuclear fission.
19. Tackle wind curtailment by increasing investment in upgrading the national grid infrastructure, particularly in Scotland, to increase transmission capacity and enable more renewable energy to be delivered where it is needed.

Government support and leadership is also needed to support SMEs to reduce their carbon emissions if the UK is to meet its commitment to achieve net zero by 2050.

Recommendations

20. Launch a 'Help to Green' campaign, as proposed by the Independent Review of Net Zero (the Skidmore Review). This should include information resources and vouchers for SMEs to plan and invest in the net zero transition. For example, green vouchers could be used to commission energy audits which would enable SMEs to determine their energy use or emissions profile and obtain expert advice on how to improve energy efficiency.
21. Introduce a requirement for commercial landlords to provide tenants with information about the carbon footprint of the premises they lease. Requiring commercial landlords to share energy, water, and waste data with tenants would remove a key barrier to business' ability to calculate their emissions and create decarbonisation plans.

Trade

Improving the exporting landscape

The government recognises that exporting businesses are important in driving economic growth.[xxvi] Yet data from the Office for National Statistics (ONS) suggests that only around 11% of UK businesses export.[xxvii]

At the same time, according to the Office for Budget Responsibility (OBR), UK trade intensity (exports plus imports as a share of GDP) has not recovered in line with other G7 countries since the pandemic. However, they note there has been a significant difference between goods and services trade: whilst at the end of 2023, goods trade was around 10% below pre-pandemic levels, compared to a 5% increase on average in G7 counterparts, UK services growth was actually the strongest of the G7. UK services growth ended 2023 at around 12% above pre-pandemic levels, where the remaining G7, at the end of the third-quarter of 2023, reached around 9% on average.[xxviii]

Digging deeper into the services trend, it was the sector 'other business services', including consulting, research and development and R&D that performed the best, whilst financial services and transport, services the most likely to have been impacted by Brexit, performed less strongly. Meanwhile, goods trade – being predominantly with the EU – has been significantly impacted by changes in the terms of trade with the EU following Brexit.

IoD data from January 2025 shows just over half of members export, 33% regularly and 19% on an ad hoc basis. Of those which have never exported, the primary reasons cited relate to resource constraints:

You said your organisation has never exported, but sells an exportable good or service. Which of the following have contributed to why your organisation has never exported?

Insufficient management time to explore opportunities	47.8%
Lack of business connections in overseas markets	39.1%
Regulatory or tax compliance burdens	26.1%
Sufficient business in the UK	26.1%
Lack of knowledge about export markets	21.7%
Uncertainty about economic conditions in target markets	17.4%
Concerns about payment and financial risks	17.4%

Cultural/language barriers	13.0%
Insufficient returns relative to costs	13.0%
Customs procedures	8.7%

Source: Institute of Directors Policy Voice January 2025

Of those members that used to export but do not anymore, the overwhelming reason is the UK's trading relationship with the EU:

You said your organisation used to export but do not do so currently. Which of the following, if any, have contributed to why you stopped exporting?

The UK's trading relationship with the EU	54.8%
Regulatory changes	25.8%
Decline in international demand	25.8%
Customs procedures	22.6%
Lack of international business support or partnerships	16.1%
Exchange rate fluctuations	16.1%
High costs of maintaining export operations relative to returns	16.1%
Strategic shift to focus on domestic market	9.7%
Payment and financial risks	6.5%
Logistical challenges and shipping delays	6.5%

Source: Institute of Directors Policy Voice January 2025

IoD data from January 2025 also shows that, on balance, members are expecting a net increase in exports over the next 12 months compared to the previous. However, with the largest proportion expecting no change, there looks to be a certain lack of growth prospects:

Comparing the next 12 months with the last 12 months, what do you believe the outlook for your organisation will be in terms of exports:

Much higher	4.3%
Somewhat higher	24.9%
No change	48.6%
Somewhat lower	13.5%
Much lower	6.3%
Don't know	2.4%
Total	414 respondents

Source: Institute of Directors Policy Voice January 2025

* This data set removed all those who selected N/A, i.e. those organisations that do not export

When asked what they think would do most to boost growth for their organisation in 2025, 35% responded with ‘an improved trade deal with the EU’, the third most selected option behind ‘a significant scaling-back of the government's employment law reforms’ (42%) and ‘reduction of the tax burden on business’ (58%).

The evidence above shows how the UK’s trading relationship with the EU remains one of the biggest barriers to business growth. The UK-EU reset must therefore be the government’s priority for trade moving forwards. Being the UK’s closest and biggest trading partner, easing trade frictions, including mobility challenges and the customs burden, with the EU will go a long way in encouraging firms to export.

Recommendation

22. Negotiate an improved Trade and Cooperation agreement with the EU in 2026.

The TCA is due to be reviewed by the UK and EU in 2026. Its scope should complement new areas of UK-EU cooperation, such as such as a veterinary agreement and mutual recognition of professional qualifications. Business mobility should be improved by seeking an extension of the current 90-day visit limit. The government should negotiate a Youth Experience Scheme to allow 18-30 year olds to work and study in each jurisdiction, as supported by our members[xxix].

Recommendation

23. Restart the development of the Single Trade Window

Last year, the Government announced that it would be halting the development of the Single Trade Window (STW) due to financial constraints following the Budget. This is frustrating, particularly given extensive industry engagement and the project’s proximity to completion. We urge the government to restart the implementation of the STW to facilitate trade for all UK companies.

According to IoD data, paperwork remains the largest obstacle for organisations involved in international exports[xxx]. The Single Trade Window, designed to streamline border processes through a unified platform, has the potential to significantly ease this administrative burden on firms, making importing and exporting more efficient.

Additionally, it could enhance data collection to better monitor and understand UK trade flows.

Measuring success

To be able to judge when UK export levels are truly improving, there must be a measure of what success looks like.
The Institute of Directors urges the government to aim higher on its strategy for export growth – the previous target set by the Conservative Government of £1 trillion exports in current prices by 2030 is not sufficiently stretching.

In our policy paper, Setting a Meaningful Export Target for Britain, we assessed whether the £1 trillion headline target is appropriate and consider whether there are alternative measures that better capture what government export policy is trying to achieve. We concluded that because the £1 trillion target is affected not only by inflation, but also by longer-term global economic trends, a preferable measure would be linked to the volume of trade and set at a level that takes account of trend growth rates.

In addition, we also urge a second target: to increase the proportion of UK businesses that are exporters. Meaningful targets would enable Parliament to better judge the success of government policy designed to support exporters, as well as providing government itself with a framework around which it can judge the effectiveness of different policy interventions.

Moreover, it would be useful to monitor disaggregate data to assess growth in specific demographics. For example, understanding trends in different regions across the UK, as well as sizes of business – small, medium and large – could help to identify where further policy interventions might spur increased export growth.

Recommendations

24. **A chained-volume target of £950bn of exports in 2023 prices by 2030**
25. **A second target of 15% of all businesses exporting either goods or services by 2030**

Export support

IoD data shows there are a significant number of members who feel they lack the relevant tools needed to export internationally. In response to an IoD poll in December 2023, of those businesses which do not currently export, 11% responded this is due to a lack of availability to finance and 16% said they do not have the relevant knowledge and skills.
An IoD survey in January 2025 found that the majority of members have not benefited from export support offerings. However, of those which have, government trade advisors, events and webinars and local embassies have been the most used:

Has your organisation ever benefited from any of the following support offerings to help with exporting challenges?

None of the above	52.8%
Government trade advisors	19.8%
Events and webinars	18.3%
Local embassies	18.3%
Guidance and advice from trade associations	14.9%
Private consulting support	14.2%
Government factsheets and explainers	7.7%
Translation services	6.7%
UK Export Finance	5.7%
The UK Export Academy	4.6%
Government Export Champion programme	3.1%

Source: Institute of Directors Policy Voice January 2025

Anecdotally, members tell us guidance tends to be ad hoc and important communications often do not reach them. At the same time, GOV.UK guidance is seen to be overcomplicated, and often sends the reader into a maze of links to new pages and documents.

Meanwhile, some members have had said trade advisors do not necessarily offer better advice than what is available online. Businesses consistently tell us they value tailored, in person advice over generic guidance fact sheets and have therefore welcomed services like the Export Support Service helpline.

Additionally, funding options are limited, especially as a first-time exporter. The Internationalisation Fund, which offered finance for SMEs looking to expand into new markets, was discontinued in January 2023. UK Export Finance, which provides government backed insurance and guarantees for UK exports, is primarily aimed at more experienced exporters.

Many members also feel that the government should offer better services which connect businesses to international opportunities. For example, they have not been able to successfully use government sources to find suppliers or connect with international buyers or partners.

Overall, despite the 2021 strategy, practical export support seems rather haphazard and could be much better organised to ensure it is accessible and comprehensible for all types of business.

Recommendations

26. **Create a one-stop-shop style portal for all export guidance and funding initiatives. This would include contact information for local trade advisors, simplified, step by step guidance sheets for processes throughout the export journey, and details for customs helplines.**
27. **Better facilitate business to business connections by publishing a database where firms can find buyers and partners across the globe, attend trade shows and access UK embassies in international markets.**
28. **Provide training for International Trade Advisors to ensure advice is consistent and dependable across all regions.**
29. **Reopen an equivalent of the Internationalisation Fund to provide grants to SMEs and first-time exporters, which can be used for travelling to new markets, attending trade shows, using translation services and employing consulting services.**
30. **Monitor and publish the impact of government assistance for exporters - teams both at overseas missions and those UK-based trade advisors - to assess their effectiveness and ensure all businesses have the right support for their exporting needs.**

Devolved Nations

Each of the UK's devolved nations faces distinct challenges that have an impact on the type of budgetary support they require. Although the Autumn Budget looks at the full United Kingdom, it is vital that consideration is given to the potential implications that the Devolved Nations may face. The economic contexts in each nation, growing tax powers, and political mandates mean that any UK budget must account for the distinct needs and contributions of Scotland, Wales and Northern Ireland.

Below we set out a range of recommendations applicable to each/all of the Nations that would help to foster sustainable economic growth and create greater certainty for the respective budget holders in Scotland, Wales and Northern Ireland.

Recommendations

31. A clearer breakdown picture of how UK-wide spending decisions (e.g. NHS, education, apprenticeship levy) translate into devolved funding via the Barnett formula. A review of the formula to better reflect demographic and regional needs across the nations.
32. Look towards a multi-year block grant settlements to improve planning and delivery, especially for capital projects and public service reform in the devolved nations.
33. Tailored and dedicated support packages for rural regions across the nations, who face acute challenges in physical and digital infrastructure. A "rural support fund" would allow these regions to unlock vital funds to address some of the key blockers to economic growth.
34. Improve coordination between HM Treasury and the Scottish Government on income tax policy and administration, especially around the UK-wide Personal Allowance and reliefs.
35. Establish a joint UK devolved tax policy forum to improve transparency, stakeholder engagement, and evidence-based policymaking for future devolved tax policy decisions.

Innovation and Technology Policy

The government has identified digitalisation and AI adoption as foundational to growth, underpinning ambitions for a more productive, competitive and resilient economy. However, policy remains fragmented, with limited coordination across finance, skills, and regulation. Support mechanisms for businesses, especially SMEs, are often hard to navigate and insufficient to offset the risks and costs of adoption. While pro-innovation announcements and the Technology Adoption Review have set the right direction, these must now translate into detailed, evidence-backed and measurable implementation plans. The focus should shift from vision-setting to accelerating meaningful and responsible diffusion, supported by clear governance frameworks, regional delivery, and targeted tax and skills incentives. Government should lead on direction-setting, coherence and enabling conditions, including cybersecurity, standards, interoperable data, and alignment between technology, energy and fiscal policy. Industry, in turn, should lead on execution, with targeted public support where barriers are systemic such as for skills, assurance, guidance and access to finance.

Recommendations

36. Create a single digital front door for innovation finance. Streamline Innovate UK, UKRI and British Business Bank support into one platform with common onboarding and guidance, reducing search costs and duplicative journeys for adopters and scale-ups. Government must also publish further details on the proposed AI Adoption Fund to clarify scope, eligibility and funding mechanisms.
37. Introduce time-limited, digital adoption-focused tax relief for SMEs. Replace fragmented voucher schemes with tiered, outcome-linked support combining upfront subsidies with enhanced tax relief on qualifying digital and AI investments. This must address recurring costs (such as licensing and cloud costs) as well as training to prioritise sustainable capacity-building.
38. Centralise trusted guidance and AI assurance for businesses. Establish a dynamic information portal on AI deployment for business, modelled on the AI Playbook for government, and complement this with a private-sector-led accelerator service offering tailored advice on use cases, vendor selection and governance. In line with recommendations from the SME Digital Adoption Taskforce, the Business Growth Service should be updated to reflect digital and AI priorities, including information on the government's work on AI

assurance. Effort should focus on providing clearer context and specificity around the types of generative AI tools, technologies, and systems available, rather than presenting AI as a universal solution to productivity challenges.

39. Launch a practical AI guidance programme with regional and sectoral delivery. Develop sector-specific sandboxes to encourage SMEs to adopt AI in a safe, experimental environment; and appoint regional AI champions (potentially aligned with AIGZs) to provide hands-on support alongside digitally-advanced firms. These initiatives may draw on international best practice such as from Germany and Singapore, charting a path for businesses in lower-productivity sectors. With the Made Smarter programme being expanded, this programme provides a proven model.
40. Develop, scale and support business digital and AI skills and competency frameworks across sectors. DSIT, DBT and DWP should collaborate to establish agile generative AI skills taxonomies. Building on BridgeAI and existing government-industry commitments to upskill 7.5M workers by 2030, the government should deploy underspent Growth and Skills Levy funds to support reskilling aligned with IS-8, closing the gap between generic AI training and industry-specific competencies.
41. Improve data, transparency and adoption metrics. Upgrade business digital and AI adoption statistics (drawing on existing data from Help to Grow, trade associations and private-sector sales); consider a voluntary Taskforce for AI-Related Workplace Disclosures to share best practices for use and governance; and update classifications where needed to reflect the evolving digital economy (e.g. SIC).
42. Advance digital governance and guardrails in the form of standards and codes of practice: Building on the Cybersecurity Code of Practice, develop cross-cutting governance standards for emerging technologies, particularly new forms of AI.

We hope you find this helpful.

Yours sincerely,

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Anna Leach, Chief Economist

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